

**REGULAR STATE BANKING BOARD MEETING
HELD BY CONFERENCE CALL
OFFICE OF THE COMMISSIONER
DEPARTMENT OF FINANCIAL INSTITUTIONS
2000 SCHAFER STREET, SUITE G
BISMARCK, NORTH DAKOTA**

September 11, 2008

The regular meeting of the State Banking Board was held in the Office of the Commissioner, Department of Financial Institutions, 2000 Schafer Street, Suite G, Bismarck, North Dakota. Chairman Karsky called the meeting to order at 9:02 a.m., Thursday, September 11, 2008, by conference call.

MEMBERS PRESENT: Timothy J. Karsky, Chairman (*Office*)
Nancy Baerwald, Member (*Cando*)
Bill Daniel, Member (*Bismarck*)
Lorren Henke, Member (*Wishek*)
Roger Monson, Member (*Finley*)
Anita Quale, Member (*Watford City*)

MEMBER ABSENT: Ron Braseth, Member

ALSO PRESENT: Suzette Richardson, Acting Secretary (*Office*)
Douglas D. Grenz, Chief Examiner – Banks (*Office*)
Aaron Webb, Assistant Attorney General (*Office*)

APPROVAL OF ACTING SECRETARY

It was moved by Member Henke, seconded by Member Baerwald, and carried by a vote of 6 to 1, with Member Braseth absent, to approve Suzette Richardson as Acting Secretary.

ARTICLES OF AMENDMENT – PERPETUAL EXISTENCE

Chairman Karsky indicated the Department received Articles of Amendment for perpetual existence from the First State Bank of Harvey, Harvey,

Chairman Karsky noted after approval of the above bank, the following three banks remain to amend their Articles of Incorporation to perpetual existence: First Security Bank – West, Beulah; Starion Financial, Bismarck; and Bank of Minto, Minto.

It was moved by Member Baerwald, seconded by Member Monson, and carried by a vote of 6 to 0, with Member Braseth absent, to approve the Amendment to the Articles of Incorporation to provide for perpetual existence of First State Bank of Harvey, Harvey.

APPROVAL OF TRADE NAME BY CORNERSTONE BANK, ENDERLIN

Chairman Karsky indicated Cornerstone Bank, Enderlin, has acquired the assets of Heartland Mortgage, Bismarck, and is requesting approval to use the trade names Heartland Mortgage and Heartland Mortgage Company.

Member Monson asked if the purchase by Cornerstone Bank, Enderlin, has been approved by the Department. Chairman Karsky indicated Cornerstone Bank basically bought the equipment from Heartland Mortgage, its employees will now work for Cornerstone Bank, and no goodwill has been booked. Chairman Karsky indicated Cornerstone Bank will operate as a Loan Production Office (LPO) at the present location of Heartland Mortgage.

It was moved by Member Monson and seconded by Member Quale to approve the request by Cornerstone Bank, Enderlin, to use the trade names Heartland Mortgage and Heartland Mortgage Company.

Member Henke asked if the request is for the trade name Heartland Mortgage Company, and Chairman Karsky indicated Cornerstone Bank is requesting two trade names: Heartland Mortgage and Heartland Mortgage Company. Member Henke asked for clarification that the LPO will be operated by Cornerstone Bank and this will not result in two separate entities, the bank and a mortgage company, and Chairman Karsky indicated that is correct.

Member Quale asked if the LPO will be operated under Cornerstone Bank's charter. Chairman Karsky indicated that is correct and Cornerstone Bank will now obtain approval to add "dba Heartland Mortgage and Heartland Mortgage Company".

The motion was approved by a vote of 6 to 0, with Member Braseth absent.

APPROVAL OF MINUTES

Chairman Karsky indicated the Board received copies of the minutes of the regular meeting held on July 10, 2008.

It was moved by Member Baerwald, seconded by Member Daniel, and carried by a vote of 6 to 0, with Member Braseth absent, to approve the minutes as presented.

DISCUSSION ITEM – FREDDIE MAC/FANNIE MAE

Chairman Karsky indicated the Department conducted a survey of North Dakota state-chartered banks that held stock in Freddie Mac/Fannie Mae, and also participated in a conference call with CSBS to assess the situation. Chairman Karsky indicated the impact to capital for North Dakota state-chartered banks will be minimal. Chairman Karsky indicated the amount of stock one North Dakota state-chartered bank owns is not enough to result in the bank moving from well-capitalized to adequately capitalized. Chairman Karsky stated the Department is watching this situation daily, and asked if any Board members had questions or comments.

Member Quale indicated First International Bank & Trust, Watford City, has purchased stock and asked what they will be requested to do with this stock.

Chairman Karsky indicated he, as well as FDIC representatives, participated in a recent ABA conference call discussing this issue. Chairman Karsky indicated banks do not have to sell this stock; however, because it is an equity security the stock must be reported as "Available for Sale".

Member Quale pointed out that under “Unrealized Gain or Loss” you do not have to realize that loss until the stock is sold.

Chairman Karsky stated this stock will not come under “Held to Maturity Account”, but instead will keep this stock under “Available for Sale” and these assets have to be marked to market, resulting in a write-down through earnings.

Member Quale asked if this would be similar to the marked to market on other securities, and Chairman Karsky indicated this will be a realized loss that will impact capital.

Chairman Karsky stated this will become effective September 30, 2008, and the FDIC will issue a memo to all banks on how this stock should be handled. Chairman Karsky indicated the majority of banks were not carrying this stock under the correct category on their Call Reports.

Member Henke referred to “Available for Sale” and that it is not run through earnings, and Chairman Karsky indicated this would be because it is not a debt security, but an equity security and is stock.

Chairman Karsky indicated there is a lot of confusion regarding this, but again stated this will impact capital accounts, and could severely hurt a number of other states’ banks. Chairman Karsky again indicated the impact on North Dakota state-chartered banks will be minimal.

Member Henke asked what the Department’s position will be when North Dakota banks hold Federal Home Loan Bank (FHLB) stock. Chairman Karsky stated this was also discussed during the ABA conference call, and explained the big difference is that Freddie Mac/Fannie Mae stock was traded on an active market, whereas you have to be a member in order to buy FHLB stock, which is traded at \$100 par. Chairman Karsky stated FHLB is reported to be fundamentally well capitalized; however, Freddie Mac/Fannie Mae was also reported as well capitalized in July 2008. Chairman Karsky stated regulators have lost a lot of creditability as far as what is considered adequate or inadequate capital over the past months.

Member Henke stated he can see the FDIC requiring rules be developed for impairment.

Chairman Karsky referred to Part 337 of the FDIC Rules and Regulations, Broker Deposit Rule, which requires banks to obtain a waiver for broker deposits. Chairman Karsky stated he does not believe most banks understand that even if they do not have broker deposits but fall into the adequately capitalized category they will have to request a waiver from the FDIC to get deposits in their own area. Chairman Karsky continued even if banks do not have brokered deposits they cannot pay over 75 basis points over the market rate, and the FDIC determines the market.

Chairman Karsky referred to a bank in Kansas that recently failed which was due to liquidity problems, along with at least three other banks which failed due to liquidity.

Chairman Karsky indicated there will be problems created by regulators in keeping banks solvent.

Chairman Karsky referred to another article which indicated that Kansas Bankers Surety is terminating its excess deposit insurance. Chairman Karsky stated a large number of banks in North Dakota utilize this company, so when these contracts are cancelled within the next 60-90 days and the banks notify their customers, will the customers keep their deposits in these banks or withdrawn and move to another institution.

Member Monson indicated this becomes another liquidity issue. Chairman Karsky agreed and indicated the two biggest regulation items over the next year will be liquidity and capital. Chairman concluded he feels banks need to maintain a well-capitalized ratio, and Member Henke added this will have an effect even in each bank's local market if capital drops to adequate.

Chairman Karsky indicated he will be in Washington, DC, next week and talk with FDIC and OCC representatives about liquidity; particularly whether regulators are making it tough for a good bank to operate, and are we as regulators creating unnecessary problems.

NDBA GROUP MEETING

Chairman Karsky stated he talked to several bankers at the North Dakota Bankers Association Group Meeting and learned crop insurance was a lifesaver in

the western North Dakota area, whereas in northwestern North Dakota many farmers were having to harvest poor crops to collect their insurance, which was not as good a scenario as having 100% percent loss.

Members Henke and Monson indicated crop circumstances in their areas are very good; however, Member Monson there will be loan to deposit effects. Chairman Karsky agreed this will impact earnings; however, having extra liquidity may not be a bad situation.

Member Monson asked if a bank would fall below well-capitalized and would have to request permission for a broker CD is it correct that bank cannot pay over 75 basis points? Chairman Karsky indicated if a bank is fortunate enough to obtain a waiver, since they are very hard to obtain, the 75 basis point market rule goes into effect.

Member Henke asked for clarification that if a bank is well-capitalized it does not have to abide by the requirement to obtain permission from the FDIC to obtain broker deposits. Chairman Karsky indicated that is correct and explained when a bank is considered adequately capitalized, it must obtain permission from the FDIC to obtain, maintain, or renew broker deposits. Member Henke also questioned if the requirement of not paying over 75 basis points also pertains to a bank's own market deposit, and Chairman Karsky indicated that is correct.

Chairman Karsky indicated the Department's message will be for state-chartered banks to have a plan to remain well-capitalized.

Member Monson stated he believes most the state-chartered banks are well-capitalized, although some are getting close to the adequately capitalized level. Chairman Karsky added that most banks do not realize the ramifications of being classified as adequately capitalized.

The Board went into closed session at 9:26 a.m.

Timothy J. Karsky, Chairman

Suzette Richardson, Acting Secretary